

The Tax Examiner

Bills Introduced in the Legislature that Impact Revenues

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State spending is important to economic recovery. Cuts in state government goods and services have far-reaching ripple effects. Employees are laid off, contracts with vendors are trimmed, payments provided to businesses and nonprofit organizations for direct services are lowered, and benefit levels to individuals are reduced. All of these circumstances can result in people having less money to spend, which can further reduce business activity, employment and tax revenues.

To prevent this downward spiral, it's important for state lawmakers to strive to maintain spending at current levels. This is what the federal economic stimulus payments to the states aim to do. In addition, citizens and lawmakers must carefully examine the revenue impact of proposed state tax bills, recognizing that reducing a tax has a direct impact on state spending for needed services. To assist in the effort, the Center on Budget and Policy has been monitoring the following tax bills:

Undermining Local Control of Revenue

SB 484 would strip county Boards of Equalization and Review (BOER) of all jurisdiction to review and equalize tax assessments of \$50,000 or more for natural resource or industrial property. This bill is designed to weaken local county government and county control over revenue. It creates two different types of taxpayers, rich ones and poor ones, and two different legal systems for each. The Center on Budget and Policy sent a [letter to the Senate Finance Committee](#) members describing our findings of the bill.

Read the bill: [SB 484](#)

Tobacco Tax Hike

SB 420 and HB 2746 would raise the cigarette tax from 55 cents to the national average of \$1.20 per pack and would raise the tax rate on all other tobacco products from 7 percent of the wholesale price to 14 percent. The revenue from cigarette tax hike, \$102.3 million, and the wholesale tax increase, \$5 million, would fund the Governor's Office of Health System Improvement. According to the fiscal note, revenues would decrease by roughly \$3.1 million per year due to a decrease in tobacco consumption. Read a [report on the health and fiscal impact of the tax](#) by the Center on Budget and Policy.

Read the bill: [SB 420](#) or [HB 2746](#)

Transmission Tax

Governor Manchin has proposed legislation (HB 3000/SB 505) to impose a new B&O tax on two newly proposed power lines. The proposed \$1.3 billion Trans-Allegheny Interstate Line (TRAIL), which will travel 120 miles across six counties on its route from southwestern Pennsylvania to northern Virginia. The second proposed transmission line is the \$1.8 billion Potomac-Appalachian Transmission Highline or PATH. PATH travels for 298 miles from AEP's John Amos plant near St Albans, WV to Frederick, Maryland.

The bill(s) call for a tax rate in an amount "equal to the product of the tax rate of \$750 per mile multiplied by the voltage carrying capacity" of the transmission line being taxed. Although no fiscal note has been issued, the tax is projected to bring in \$135 million annually. The tax revenues would be split three ways, with a third going to the West Virginia Infrastructure and Jobs Development Council, counties where the transmission lines travels and to all electric retail customers statewide as reduced billing rates.

Read the bill: [HB 3000](#) or [SB 505](#)

Small Business Tax Credit for Health Plans

The Legislature is considering a tax credit for small business employers (25 employees or less) to assist in the purchase of health insurance for their employees. The credit is capped at \$25,000 per employer and is refundable if the tax credit is more than the small businesses' tax liability. The credit is offered on a first come, first serve basis, with a \$6 million cap in tax expenditures allowed on a businesses corporate and or business franchise tax liability. One potential flaw with the credit is that it's not well targeted, which means it could be giving a tax incentive to small businesses who already offer (or would offer) health insurance to their employees.

A [recent paper by M.I.T. economist Jonathan Gruber](#) found that the best approach to these types of credits is to tightly target small businesses that employ low-wage workers. Implementing a wage/number of workers threshold for qualifying businesses could accomplish this. To avoid businesses from not hiring or increasing wages, the credit could be phased out as the number of employees grows above the threshold.

An [October 2008 report by Linda Blumberg and John Holahan](#) of the Urban Institute are skeptical of small employer credits. They hold that small employer credits are not well targeted because of a number of factors, including family characteristics, labor participation, and individual needs.

Read the bill: [HB 2744](#) or [SB 413](#)

Reducing Heating Oil Tax

The Agriculture Committee voted on February 17 to reduce the wholesale tax on home heating and off-road use oil from 5 percent to 4.85 percent. The wholesale or variable tax rate (as opposed to the flat rate of 20.5 cents per gallon that is also levied on fuel) on heating oil is part of the Motor Fuel Excise Tax

that funds the State Road Fund. Upon full implementation, the annual revenue loss to the road fund would be \$1.5 million.

Read the bill: [HB 2521](#) – Home heating oil bill.

Eliminating Timber Severance Tax

On March 12, the House voted to eliminate the severance tax on timber for years 2010-2013. The four-year repeal in the state's severance tax on timber will cost the state \$4.3 in revenue per year. The timber severance tax is currently 4 percent, with 1.22 percent of the tax funding the Logging Sediment Control Act Program (LSCA) at the WV Division of Forestry and 2.78 percent used to pay down the workers' compensation debt fund. The bill would lead to a total revenue loss of \$4.4 million upon full implementation. According to the fiscal note, the revenue loss would lead to the laying off 30 employees in the LSCA program and force the Div. of Forestry to close all offices with the exception of its state headquarters. (The LSCA program regulates logging and water quality associated with timbering.) In addition, the Div. of Forestry would "would be forced to end the payment to volunteer firefighters and VFDs for their time and equipment use in the suppression of forest fires, thereby increasing the time, cost, and hazards for Division employees fighting the fires on the ground."

Read the bill: [HB 2931](#)

Eliminating Taxes on Behavior Health Providers

This bill would eliminate the 5 percent severance tax rate on behavioral health providers and would exempt them for the health care provider tax. The elimination of the severance tax would cost the state \$9.7 million per year and result in the loss of \$29.1 million in federal Medicaid matching funds for two years. When the temporary increase in the federal matching rate for the WV Medicaid Program increases 6.2 percent (from 74 to 80.2 percent) from the American Recovery and Reinvestment Act of 2009 (ARRA), it will result in reduction of \$38.8 in federal funds. Because the bill doesn't specifically say what behavior health care providers' taxes would be exempt, the revenue loss is unknown. For more details about the State Medicaid Program click [here](#).

Read the bill: [HB 2014](#)